

VZCZCXYZ0001
RR RUEHWEB

DE RUEHMO #0750/01 0791312
ZNY CCCCC ZZH
R 191312Z MAR 08
FM AMEMBASSY MOSCOW
TO RUEHC/SECSTATE WASHDC 7201
INFO RUCPDO/DEPT OF COMMERCE WASHDC
RHEHNSC/NSC WASHDC
RUEAIIA/CIA WASHDC

C O N F I D E N T I A L MOSCOW 000750

SIPDIS

SIPDIS

STATE FOR EUR/RUS

E.O. 12958: DECL: 03/19/2018

TAGS: [ECON](#) [PGOV](#) [SOCI](#) [RS](#)

SUBJECT: RUSSIAN ECONOMIST PESSIMISTIC ABOUT CONTINUED
GROWTH OF MIDDLE CLASS

REF: A. MOSCOW 5804
[1](#)B. MOSCOW 5572
[1](#)C. MOSCOW 5293
[1](#)D. MOSCOW 558
[1](#)E. MOSCOW 709

Classified By: ECMIN Eric T. Schultz for Reasons 1.4 (b/d).

Summary

[1](#)1. (SBU) Yevgeniy Gontmakher, Director of the Center for Social Politics and the Institute of Economy at the Russian Academy of Sciences, told us March 5 that the growth of Russia's middle class was stagnating despite rising incomes. He identified inflation, which for most Russians was twice the government's official 12 percent, as the principal factor. In addition, he said poor social services and barriers to small businesses were also factors slowing the growth of the middle class and leading to rising inequality. Gontmakher said President-elect Medvedev needed to undertake structural reforms early in his tenure to reverse these trends or it would be impossible to meet the GOR's stated goal to have more than half of Russians in the middle class by 2020. End Summary.

Middle Class Stagnating

[1](#)2. (C) Contrary to what other experts have told us (reftels A-C), Gontmakher was not optimistic about continued growth of the Russian middle class. He estimated that currently 10 percent of Russians have monthly incomes of at least \$1,000 and meet middle class criteria. According to Gontmakher, another 20 percent of the population meets "most" of the criteria. However, he claimed the size of the middle class has stagnated and that 30 percent of Russians are living in poverty -- twice the GOR's 2007 estimate of 14.3 percent.

[1](#)3. (C) Gontmakher said that the biggest obstacle to expanding the middle class further was inflation. He said that inflation is probably twice the GOR estimates of roughly 12 percent and has hit the poor the hardest, retarding their upward mobility despite rising incomes. In addition, Gontmakher said the low quality of social services such as education and healthcare, as well as barriers for small and medium business development, are also preventing further growth of Russia's middle class.

[1](#)4. (C) Gontmakher said the middle class was also being harmed by rising inequality. He said it was becoming more

difficult for low income earners to climb the social ladder. A recent RosStat report had found that the wealthiest 10 percent of Russians earned 17 times more than the poorest 10 percent, an increase from 15 times two years ago. Moreover, according to Gontmakher, if you counted informal (unreported) income, the gap was even larger, with the richest 10 percent of Russians earning 30 times the income of poorest 10 percent.

Structural Reforms Needed

¶5. (C) According to Gontmakher, the National Priority Projects were "half charity, half PR." They had failed to make any real difference in improving the lot of average Russians (reftel D). What was needed were structural reforms that would create more economic freedom and create a better business environment) especially for small businesses that could serve as engines for growth, diversification and innovation.

¶6. (C) Gontmakher also stressed the need for structural reform of social institutions and said that the GOR's top social priorities should be to address healthcare, migration, education, and pensions. He estimated that it would cost an additional 1.2 trillion rubles (roughly \$50 billion) annually to address these social issues. To avoid inflationary pressure, the funding would have to be redistributed in the existing budget) which Gontmakher argued would require a new budget and tax policy that the GOR was not ready to contemplate.

But Unlikely to Occur

¶7. (C) Gontmakher said bluntly that Putin had "wasted his time" in office by not tackling the country's economic and social weaknesses and had accumulated problems for the new administration. He noted that ironically, as future prime minister, Putin would have the responsibility for solving the problems he had failed to address as president.

¶8. (C) Gontmakher was adamant that Medvedev would need to act quickly and unveil concrete plans for reform in his first 100 days (reftel E). Otherwise, there would be little hope for significant improvement in Russia's economic and social spheres during his tenure and it would be impossible for the GOR to reach its goals with respect to the size of the middle class: 52 percent of the population by 2020 (MEDT) or 60-70 percent (President Putin).
BURNS